

BENGALURU | OFFICE

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New projects to aid supply issues

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Office leasing momentum in Q1 2018 remained robust driven by primarily by expansions. We advise occupiers looking for large floorplates to act fast and firm up their real estate requirements to expand operations in the prime IT corridors as most new supply is either pre-committed or quickly taken up by occupiers. In our opinion, flexible workspace will gain popularity, as more occupiers are exploring these strategically located office spaces.

Forecast at a glance



Demand

Demand set to outstrip supply over 2018-2020. We forecast gross absorption of 14 million sq ft (1.3 million sq m) in 2018



Supply

Q1 witnessed the addition of 3.7 million sq ft (0.3 million sq m) of new supply. Considering new launches, we have revised our new supply forecast over 2018-2020 to 23.7 million sq ft (2.2 million sq m), representing a 16% increase in total stock



Vacancy rate

We expect vacancy to inch down to 9% by end-2018 from the current 9.4% and to 7% by end-2020



Rent

Rents should go up in 2018 by 4-5%; We forecast them to increase by 10-12% over 2018-2020



Price

We forecast that capital values will remain stable in 2018. However, we expect them to increase by 8-10% over 2018-2020.

Expansion by technology occupiers to continue driving demand

Bengaluru's total absorption in Q1 2018 stood at 3.9 million sq ft (0.35 million sq m), up by 7% YOY. We expect the absorption to pick up pace in the coming quarters as various medium to large sized transactions should be concluded in 2018. Demand should remain robust in the long-term, driven by the availability of a huge talent pool. We forecast about 35-40 million sq ft (3.2-3.7 million sq m) of gross absorption over 2018-2020.

ORR remained the epicentre of the office market with a 44% share of total office leasing volume followed by the Secondary Business District (SBD) on 12%, Whitefield on 11%, the Central Business District (CBD) on 11%, North Bengaluru on 10% and other locations (12%).

Rapid expansion by technology occupiers drove the demand in Q1 2018 with a 49% share of total gross absorption, followed by flexible workspace on 13%, finance on 12%, engineering and manufacturing on 9% and other sectors on 17%. In line with our earlier prediction, flexible workspace continued to flourish due to high demand in the CBD and Off-CBD areas. We expect the trend to pick up due to lower vacancy levels in strategic locations such as the CBD, Off-CBD and SBD areas.

Rental Values

Micromarkets	Rental Values ¹	QOQ change	YOY change
CBD	110 - 190	0.0%	25.0%
SBD (Indiranagr-Koramangala)	90 - 150	4.3%	14.3%
Outer Ring Road (Sarjapur - Marathahalli)	80 - 90	0.0%	6.3%
Outer Ring Road (K.R. Puram - Hebbal)	75 - 85	3.2%	12.7%
Bannerghatta Road	65 - 90	6.9%	26.0%
Hosur Road	32 - 42	0.0%	5.7%
EPIP Zone/Whitefield	35 - 45	0.0%	11.1%
Electronic City	35 - 45	0.0%	17.6%
North (Hebbal - Yelahanka)	45 - 72	0.0%	3.5%

Colliers International India Research

¹Indicative Grade A rentals in INR per sq ft per month

Fig 1. Rental Value Trend (INR per sq ft per month)

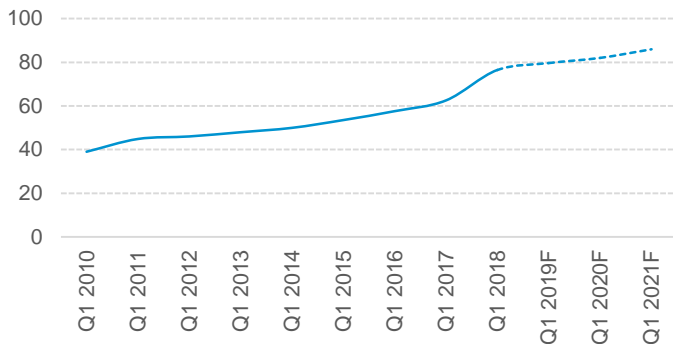
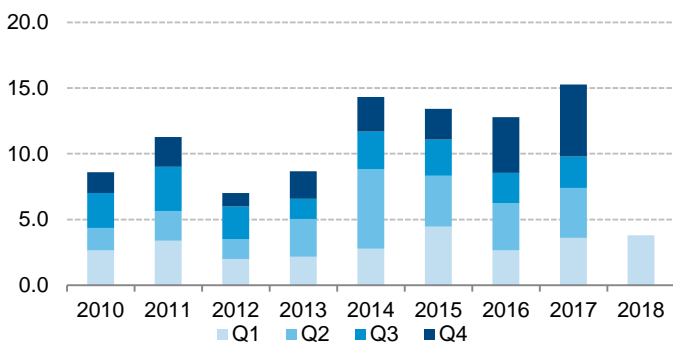


Fig 2. Gross Office Absorption (million sq ft)



Major Lease Transactions in Q1 2018

Client	Building Name	Area (sq ft)	Location
HSBC	Embassy Tech Village	200,000	ORR
Robert Bosch	Stand Alone	158,980	Hosur Road
CSG Systems International	Embassy Tech Village	150,000	ORR
Future Group	Stand Alone	145,000	CBD
Rolls Royce	Manyata Embassy Business Park	145,000	ORR

Source: Colliers International India Research
 Note: All figures are based on market information as on 25 March 2018

New launches inflated new supply forecast over 2018-2020

New supply of about 3.7 million sq ft (0.3 million sq m) was infused into Bengaluru's Grade A office inventory in Q1 2018, representing a 22% increase YOY. However, 2.5 million sq ft (0.2 million sq m) was pre-committed, leaving only 1.2 million sq ft (0.1 million sq m) for further leasing.

Considering the demand supply dynamics of the city, developers launched around 4.5 million sq ft (0.4 million sq m) of new projects in Q1 2018. To profit from the demand, the developers have promised an aggressive completion timeline of two years by incorporating modern construction technologies such as pre-casting. Accordingly, we revised our new supply forecast as mentioned in our latest report '[The changing Bengaluru office market dynamics](#)' dated 6 March 2018, to 23.7 million sq ft (2.2 million sq m) by 2020, considering all materialised projects, new launches, stalled and under-construction projects in Q1 2018.

The average rents grew by 1.6% QOQ in Q1 2018, due to an increase in rents in micromarkets such as ORR, SBD and Bannerghatta Road. We anticipate the supply crunch and single digit vacancy levels in preferred locations to push the average rents up by 10-12% over 2018-2020.

Colliers' View

We expect the infrastructure developments such as allocation of funds in the Karnataka Budget 2018-2019 for the improvement of fourteen roads connecting Whitefield and the completion of the metro rail project by 2020 to shift occupier preference to Whitefield and North Bengaluru. Lower rents and robust supply pipeline will further support this tilt in preference. We recommend occupiers to pre-commit spaces in advance in these locations to avail the benefit of lower rents.

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